



Proposed Typology in Order to Classify Countries Based on Performance and State Capacity



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TABLE OF CONTENTS

Summary	6
INTRODUCTION	6
PROCEDURE	6
Definitions for Performance based Countries	7
Millennium Challenge Account Countries	7
<i>Literature Definition</i>	7
<i>Alternative Definition</i>	7
<i>Recommendation</i>	7
Near Misses Countries	7
<i>Literature Definition</i>	7
<i>Alternative Definition</i>	7
<i>Recommendation</i>	7
Good performer Countries	7
<i>Literature Definition</i>	7
<i>Alternative Definition</i>	8
<i>Recommendation</i>	8
Poor performer Countries	8
<i>Literature Definition</i>	8
<i>Alternative Definition</i>	8
<i>Recommendation</i>	8
Definitions for Fragile, Failing, Recovering, and Failed States	8
Fragile States	8
<i>Literature Definitions</i>	8
<i>Alternative Definitions</i>	9
<i>Recommendation</i>	9
Failing States	9
<i>Literature Definition</i>	9
<i>Alternative Definition</i>	9
<i>Recommendation</i>	9
Failed States	9
<i>Literature Definition</i>	9
<i>Alternative Definition</i>	9
<i>Recommendation</i>	9
Recovering States	10
<i>Literature Definition</i>	10

<i>Alternative Definition</i>	10
<i>Recommendation</i>	10
Definitions for Conflict-Related States	10
Conflict States:	10
<i>Literature Definition</i>	10
<i>Alternative Definition</i>	10
<i>Recommendation</i>	10
Humanitarian Countries	10
<i>Literature Definition</i>	10
<i>Alternative Definition</i>	10
<i>Recommendation</i>	10
Types of Development	11
Transformational Development	11
<i>Literature Definition</i>	11
<i>Alternative Definition</i>	11
<i>Recommendation</i>	11
Incremental Development	11
<i>Literature Definition</i>	11
<i>Alternative Definition</i>	11
<i>Recommendation</i>	11
Definitions for International and Foreign Policy Related Countries	11
Transnational/Global	11
<i>Literature Definition</i>	11
<i>Alternative Definition</i>	11
<i>Recommendation</i>	12
Foreign Policy Priority Countries	12
<i>Literature Definition</i>	12
<i>Alternative Definition</i>	12
<i>Recommendation</i>	12

DEFINITIONS FOR PERFORMANCE BASED COUNTRIES FROM THE DEVELOPMENT LITERATURE	13
Millennium Challenge Account Countries	13
Definition from the Literature	13
Perspectives from the Literature	14
Conclusions	14
Millennium Challenge Account Near-Miss Countries	14
Definition from the Literature	14
Perspectives from the Literature	15
Conclusions	15
Non-MCA Long Term Good Performers	15
Definition from the Literature	15
Perspectives from the Literature	16
Conclusions	17

Non-MCA Poor Performers Countries	17
Definition from the Literature	17
Perspectives from the Literature	17
Conclusions	17
Discussion Of Definitions And Perspectives From Literature	17
Defining Near Misses, Long-Term Good Performers, and Poor Performers	17
Understanding the Causality	18
Quantification	18
Synthesis Of Alternative Definitions	18
Suggested Definitions	18
Methodology for Suggested Definitions	19
Linkage Between Category Definitions and Policy and Program Prescriptions	19
DEFINITIONS FOR FRAGILE, FAILING, AND FAILED COUNTRIES	21
Fragile Countries	21
Definition from the literature	21
Perspectives from the Literature	21
Conclusions	22
Failing Countries	22
Definition from the Literature	22
Perspectives from the Literature	22
Conclusions	24
Failed Countries	24
Definition from the Literature	24
Perspectives from the Literature	24
Conclusions	25
Recovering States	25
Definition from Literature	25
Perspectives from the Literature	25
Conclusions	25
Discussion Of The Definitions And Perspectives From The Literature	25
Towards a Definition of Failed, Failing and Fragile States	25
Understanding the Causal Relationships	26
Measurement	26
Synthesis Of Alternative Definitions	26
Suggested Definitions for Failed, Failing, and Fragile States	26
Methodology for Suggested Definitions	27
Linkage between Category Definitions and Policy and Program Prescriptions	28
Conflict Related Countries	28
Conflict States	28
Definition From The Literature	28
Perspectives From The Literature	28
Suggested Definition Of Conflict Countries	29
Humanitarian Countries	29

Definition from the Literature	29
Perspectives from the Literature	29
Discussion.....	29
TYPES OF DEVELOPMENT.....	30
Transformational Development.....	30
Definition from the Literature	30
Perspectives from the Literature	30
Discussion of Definitions and Perspectives	31
Suggested Definition	31
Linkages between Definition and Policy and Program Prescriptions:	31
Incremental Development	31
Definition from Literature	31
Perspectives from the literature	31
Discussion of Perspectives and Definition.....	32
Proposed Definition	32
DEFINITIONS FOR INTERNATIONAL AND FOREIGN POLICY RELATED COUNTRIES	32
Transnational/ Global Countries.....	32
Definition From The Literature	32
Perspectives From The Literature	33
Suggested Definition Of Transational/Global Countries	33
Foreign Policy Priority Countries	34
Definition from Literature	34
Perspectives from the Literature	34
Discussion.....	35

Proposed Typology in Order to Classify Countries Based on Performance and State Capacity

Summary

A. INTRODUCTION

USAID is preparing a new strategy for its work with developing and transition countries. One part of its strategy is to classify countries in specific categories--categories that will guide USAID in achieving specific strategic objectives. USAID provided a list of categories and related definitions to be considered. The list is as follows: MCA countries, MCA near miss countries, longer-term good performer countries, poor performing countries, failing states, failed states, recovering states, states of strategic national security interest, transnational issues, incremental development, transformational development, and humanitarian countries.

B. PROCEDURE

In an effort to systemically address issues surrounding possible definitions and classifications of the countries, IRIS divided the procedure into three distinct tasks. They were:

Task 1: Scanned the development literature to identify available definitions of each category and concept.

Task 2: Determined whether one or more of the definitions in the literature was appropriate for use by USAID in its strategy. The determination was made based on the preciseness of the available definitions, their theoretical foundations, and data availability.

Task 3: Suggested a specific definition for USAID to use. The recommended definitions were specifically drawn from the literature or, when more appropriate, from a synthesis of available definitions and data. We based the definitions on simplicity, an understanding of the causal mechanisms underlying the definitions, and data availability.

This short report presents the results of a scan of the literature, an assessment of the existing definitions identified, and suggested definitions and their rationale. The proposed definitions offer a quantifiable classification system USAID could adopt in its emerging strategy.

C. FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

1. Definitions for Performance based Countries

a. Millennium Challenge Account Countries:

Literature Definition: The literature provides a precise definition of MCA countries--a definition that enables monitoring and measurement of country situations and transparent placement of countries in this category. Definitions of MCA countries emphasize three indicators: ruling justly, investing in people, and establishing economic freedom. Countries are then evaluated and ranked using 16 specific criteria based on the three indicators. Countries qualify for an indicator if they score at or above the median (measured against all other eligible countries) in at least half of the specific criteria for that indicator. Additionally, countries must rank at or above the median on the corruption indicator.

Alternative Definition: There is an alternative (and simpler) definition. This definition focuses solely on the concept of ‘ruling justly’-- that is, the quality of a country’s institutions. It does not emphasize public goods provision or good policies directly. This “concentrated” definition reflects the idea that institutional quality exerts a first-order effect on public goods provision and the adoption of good policies. The brief report that follows this summary provides a basis for the alternative definition.

Recommendation: USAID should use the definition in the literature.

b. Near Misses Countries:

Literature Definition: Unlike the MCA category, the literature does not offer a precise definition of near miss countries. The literature, however, does allude to a possible definition for near miss countries--i.e. those countries that either fall below the median on the corruption indicator or do not meet one of the three general MCA indicators.

Alternative Definition: An alternative definition is possible. It is based on the quality of a country’s governance institutions. Countries can achieve near miss status if they have ‘good’ governance based on a specific and agreed upon set of indicators but have not reached MCA status.

Recommendation: USAID should use the alternative definition that is based on the quality of a country’s governance institutions. Therefore, near miss countries can be categorized as those that do not qualify for the MCA but have institutions that score in the top 2 percent (two standard deviations above the mean) of the distribution of governance indicators. The brief report that follows this summary provides a basis for the alternative definition.

c. Good performer Countries:

Literature Definition: The literature does not provide a precise definition of “good performer” countries. Definitions in the literature emphasize positive growth rates, open trade policies, or adequate public goods provision and they vary with respect to the time period appropriate to determine good performance. Although precise definitions for good

performer countries include those that achieve economic growth of 2.0 percent per capita per year (GDP per capita in PPP¹ terms), these definitions are far too narrow to provide a robust, credible definition of governance in countries seeking the “good performer” label.

Alternative Definition: An alternative definition focuses on the source of good performance--the quality of a country’s governance institutions. Countries whose institutional quality is near the average level (i.e. below the average of the developed world) of the non-MCA developing world are good performers.

Recommendation: USAID should use the alternative definition that emphasizes the quality of governance. Countries that score between the 2nd (two standard deviations below the mean) and 98th percentiles (two standard deviations above the mean) of governance indicators should fall into the good performer category. The brief report that follows this summary provides a basis for the alternative definition.

d. Poor performer Countries:

Literature Definition: The literature does not provide a precise definition of “poor performer” countries. Definitions in the literature emphasize negative growth rates, protectionist trade policy, and inadequate public goods provision and vary as to the time period appropriate to determine good performance. The most precise definition of “poor performer” countries available in the literature focuses on negative rates of economic growth in GDP PPP per capita. Yet, such a definition poses the same specificity problems mentioned in definitions for good performer countries.

Alternative Definition: A suggested definition is one that focuses on the source of poor performance: the quality (or lack thereof) of a country’s governance institutions. Countries that have institutions well below the average level of the developing world are poor performers.

Recommendation: USAID should use the alternative definition emphasizing the quality of governance. Poor performer countries, then, are categorized as those whose institutional quality is in the bottom 2% (two standard deviations below the mean) of the eligible country list. The brief report that follows this summary provides a basis for the alternative definition.

2. Definitions for Fragile, Failing, Recovering, and Failed States

a. Fragile States:

Literature Definitions: The literature on fragile states focuses on the failure of the state to provide public goods such as health care and education. These states have ineffective

¹ PPP or Purchasing-Power Parity is defined as the theory that, in the long run, identical products and services in different countries should cost the same. This is based on the belief that exchange rates will adjust to eliminate the arbitrage opportunity of buying a product or service in one country and selling it in another. (Source: <http://www.investorwords.com>; accessed 10 July 2003).

bureaucracies hindering the provision of public goods and, especially, public order. Additionally, these states are experiencing or recently have experienced some form of political violence.

Alternative Definitions: An alternative definition of fragile states focuses on the most basic public good--law and order. This definition can be further improved by including assessments of the degree of political will, commitment to public goods provision and the potential detrimental effects of social heterogeneity (income inequality, wealth inequality, etc.) in the presence of weak institutions of law and order.

Recommendation: USAID should adopt a definition that focuses on the capacity of the state to provide law and order and on the degree of social polarization. More specifically, fragile states should be categorized as countries whose institutional quality is between the 84th percentile and 93rd percentiles (between 1 and 1 ½ standard deviations below the mean) and whose measure of social heterogeneity is above the 50th percentile (the mean values of the sample).

b. Failing States:

Literature Definition: The available literature does not differentiate between fragile and failing states. Like fragile states, failing states are characterized by the inability of the state to provide public goods, particularly healthcare and education.

Alternative Definition: A better definition of failing states highlights the role of the rule of law. Without law and order, the other functions of the state fail.

Recommendation: USAID should adopt a definition that focuses on the capacity of the state to provide law and order and the degree of social polarization. More specifically, failing states should be categorized as those countries whose institutional quality is between the 70th percentile and 84th percentiles (1/2 and 1 standard deviation below the mean) and whose measure of social heterogeneity is above the 50th percentile (the mean values of the sample).

c. Failed States:

Literature Definition: Although no single definition exists for failed states, the literature suggests that civil war and genocide characterize these countries. The lack of state capacity to provide basic services is also mentioned as another indicator of failed states.

Alternative Definition: An alternative definition of failed states incorporates institutional quality—particularly legal and political institutions. Current definitions in the literature do not discuss the role of political and legal institutional quality as the cause of state failure. Without these institutions, the state lacks the capacity to build its strength to provide other services.

Recommendation: USAID should adopt an alternative definition—one that focuses on state capacity to provide law and order and the degree of social polarization in country.

More specifically, failed states should be categorized as those countries whose institutional quality is above the 93rd percentile and whose measure of social heterogeneity is above the 50th percentile (the mean values of the sample).

d. Recovering States:

Literature Definition: The literature on recovering states suggests that states recover when civil conflict ceases and they improve public goods provision. In these cases, the bureaucracy becomes more effective at delivering public goods and corruption falls.

Alternative Definition: A better definition shifts attention away from public good provision and toward the improvement of governance institutions in the presence of social polarization. In such cases, law and order, the political will and the accountability of the political system all improve.

Recommendation: USAID should adopt the alternative definition based on the quality of a country's institutions. For example, those countries whose levels of institutional quality are rising should be categorized as recovering states.

3. Definitions for Conflict-Related States

a. Conflict States:

Literature Definition: The literature provides only vague definitions of conflict states. The literature classifies any situation where two people want the same resources (money, power, goods, prestige) as a conflict.

Alternative Definition: An alternative definition limits the types of activities that are defined as conflict. One suggested approach focuses on violent struggles between rival groups for political power.

Recommendation: USAID should define conflict states as those undergoing a civil war or some type of violent conflict between various factions.

b. Humanitarian Countries:

Literature Definition: The literature suggests that humanitarian countries are those that have experienced some form of tragedy such as a famine or civil war and where large numbers of people have experienced major displacement from their homes and/or family. Some of the events may cut across national borders.

Alternative Definition: The definitions provided by the literature for humanitarian countries are appropriate.

Recommendation: USAID should use the definition provided by the literature.

4. Types of Development

a. Transformational Development:

Literature Definition: The literature does not offer a single, unique definition for transformational development. The majority of discussions focus on shifts from agricultural to industrial societies or from household to market production. The literature also does not address the political will and the commitment to reform required for transformational development to occur.

Alternative Definition: An alternative definition examines changes in the institutional structure of society and the impact of development in one sector on another. Furthermore, the definition would also take into consideration the role of attitudes and beliefs.

Recommendation: USAID should adopt the alternative definition—one that recognizes the interaction of a series of policies and attitudes eventually leading to overall economic performance.

b. Incremental Development :

Literature Definition: The literature does not offer a unique definition for incremental development. Related topics include the large literature that examines the costs and benefits of gradualism during the transition in Eastern Europe, but these discussions focus on piecemeal policy reforms.

Alternative Definition: An alternative definition highlights the role political systems play in developing reform incentives. Incremental development occurs when one sector or group of people improves in some measurable outcome despite political constraints that prevent transformational development.

Recommendation: USAID should adopt the alternative definition—one that further identifies a lack of political commitment to major reforms as an important aspect to incremental development.

5. Definitions for International and Foreign Policy Related Countries

a. Transnational/Global:

Literature Definition: The literature suggests transnational issues involve a negative externality across borders. For example, the HIV/AIDS epidemic in Africa has the potential to adversely affect many nations. Transnational problems include environmental issues.

Alternative Definition: Improvements to the current literature definition would be marginal. However, the number of potential issues defined as transnational should not become some large as to be meaningless.

Recommendation: USAID should use the definition provided by the literature

b. Foreign Policy Priority Countries:

Literature Definition: The literature suggests that foreign policy countries are those that hold a strategic national interest to the state as defined by those with the power to direct public sector policy and resources. Foreign policy priority countries are determined by the President or the State Department.

Alternative Definition: Similar to the literature definition of foreign policy countries, an alternative definition would be imprecise. Many types of issues fall under the umbrella of national interest and security—e.g., traditional military concerns, environmental issues, demographic change, trafficking in persons.

Recommendation: USAID should follow the literature definition.

Proposed Typology in Order to Classify Countries Based on Performance and State Capacity

The report is organized as follows:

Section 1, subsections A-D discuss the various definitions in the literature regarding MCA countries, near miss countries, long-term good performers, and poor performers. After scanning the literature, we consider several problems raised in the citations in section E. Finally, in section F, we offer some conclusions and propose definitions.

Section 2 discusses the various definitions of failing, fragile, and failed states. Sections A-C present the perspectives from the literature. Section D and E offer some critical commentary along with proposed definitions.

Section 3 discusses issues revolving around conflict states. Section A provides a summary of the literature regarding conflict states and offers some discussion. Section B provides a summary of humanitarian states and offers a brief discussion.

Section 4 examines transformational and incremental development. We examine the existing literature and discuss the issues involved in these terms. We also provide suggested definitions to better apply the terms.

Section 5 offers a discussion of transnational/global countries and foreign policy countries. We offer a brief literature review of each term and provide some discussion of the usefulness of the literature-based definitions.

I. DEFINITIONS FOR PERFORMANCE BASED COUNTRIES FROM THE DEVELOPMENT LITERATURE

A. Millennium Challenge Account Countries

1. Definition from the Literature

Countries qualify for MCA status based on three categories-- *ruling justly*, *investing in people* and *establishing economic freedom*. Countries are then ranked in 16 specific criteria based on the three indicators. Countries qualify for an indicator if they score at or above the median (measured against all eligible countries) in at least half of the specific criteria for that performance indicator. Additionally, countries must rank at or above the median for *control of corruption*.

2. Perspectives from the Literature

“In order to qualify for MCA assistance, countries must (a) be in the top half of all potentially eligible countries (those countries whose 2001 GDP per capita was less than \$1435) according to the *control of corruption* rating from the governance research indicators, and (b) must be in the top half of all potentially eligible countries on at least half of each of the performance criteria under each of the three dimensions of performance.”

Daniel Kauffman and Aart Kraay,
“Governance Indicators, Aid Allocation, and the Millennium Challenge Account,”
The World Bank, December 2002 **paper available**

“The administration has proposed 16 specific indicators for this task, grouped into the president’s three broad categories. Countries must score above the median (measured against all broadly eligible countries) on half or more of the indicators in each of the three groups to qualify for the MCA. That is, they must surpass the median in three of the six “ruling justly” indicators, two of the four “investing in people” indicators, and three of the six “establishing economic freedom” indicators. In addition, a country must score above the median on corruption, regardless of how well it does on all the other indicators.”

Steve Radelet, “Will the Millennium Challenge Account be Different?”
Washington Quarterly, Spring 2003,
http://www.twq.com/03spring/docs/03spring_radelet.pdf.
Paper Available

The authors provide a brief description of the current MCA proposal as well as their alternative proposal.

Nancy Birdsall, Ruth Levine, Sarah Lucas, and Sonal Shah, “On the Eligibility Criteria for the Millennium Challenge Account,” Center for Global Development Working Paper
paper available

3. Conclusions

- a. An appropriate definition for MCA does exist.
- b. An alternative definition is possible that focuses solely on the quality of a country’s institutions.
- c. See the extended discussion in section E below.

B. Millennium Challenge Account Near-Miss Countries

1. Definition from the Literature

A MCA near miss country is one that does not attain MCA status because it (a) qualifies on all MCA indicator scores except one, or (b) satisfies all MCA indicator scores but fails in the *control of corruption* indicator.

Countries qualify for MCA status based on three categories-- *ruling justly*, *investing in people* and *establishing economic freedom*. Countries are then ranked in 16 specific criteria based on the three indicators. Countries qualify for an indicator if they score at or above the median (measured against all eligible countries) in at least half of the specific criteria for that

performance indicator. Additionally, countries must rank at or above the median for *control of corruption*.

2. Perspectives from the Literature

“In order to qualify for MCA assistance, countries must (a) be in the top half of all potentially eligible countries (those countries whose 2001 GDP per capita was less than \$1435) according to the *control of corruption* rating from the governance research indicators, and (b) must be in the top half of all potentially eligible countries on at least half of each of the performance criteria under each of the three dimensions of performance.”

Daniel Kauffman and Aart Kraay, “Governance Indicators, Aid Allocation, and the Millennium Challenge Account,” The World Bank, December 2002

paper available

“The administration has proposed 16 specific indicators for this task, grouped into the president’s three broad categories. Countries must score above the median (measured against all broadly eligible countries) on half or more of the indicators in each of the three groups to qualify for the MCA. That is, they must surpass the median in three of the six “ruling justly” indicators, two of the four “investing in people” indicators, and three of the six “establishing economic freedom” indicators. In addition, a country must score above the median on corruption, regardless of how well it does on all the other indicators.”

Steve Radelet, “Will the Millennium Challenge Account be Different?” *Washington Quarterly*, Spring 2003

http://www.twq.com/03spring/docs/03spring_radelet.pdf

paper available

The authors provide a brief description of the current MCA proposal as well as their alternative proposal.

Nancy Birdsall, Ruth Levine, Sarah Lucas, and Sonal Shah, “On the Eligibility Criteria for the Millennium Challenge Account,” Center for Global Development Working Paper

paper available

The paper provides a methodology to evaluate country performance in environments that lack good institutions and political will for reform.

World Bank Group Work in Low-Income Countries Under Stress: A Task Force Report

paper available

3. Conclusions

- a. No appropriate definition exists but an effective definition can be derived from the treatment of the MCA category.
- b. An alternative definition would focus on institutional quality.
- c. See sections E and F for an extended discussion.

C. Non-MCA Long Term Good Performers

1. Definition from the Literature

Long term good performers are those countries whose output or policy trends over time can be measured and substantiated as positive. This category includes those that have not yet

reached MCA status, but does not include the good performance countries that have “graduated” beyond MCA.

2. Perspectives from the Literature

“Many developing countries have a dynamic and uneven record with respect to economic policies and human rights. Sudden changes occur often with political transitions, or the changes in donor input. It is not useful to restrict these countries from MCA access based on criteria that reflect lengthy historical records and lag times between the introduction of policies and the outcomes. For example, the female literacy rate, which may be an excellent long-term indicator of prospects for development, would be a relatively poor criterion to distinguish between countries that are “investing in people” and those that are not.”

Nancy Birdsall, Ruth Levine, Sarah Lucas and Sonal Shah, “On Eligibility Criteria for the Millennium Challenge Account,” Center for Global Development, September 12, 2002. **paper available**

Collier and Gunning compare the literature on long-run growth factors and suggest that six major factors define good performers. These include: amount of social capital, openness to trade, public service quality, geography and risk, and the level of financial depth.

Paul Collier and Jan Willem Gunning, “Explaining African Economic Performance,” *Journal of Economic Literature*, March 1999. **paper available**

“Among developing countries, 2.0 percent per capita growth is a good performance. Sound policies are, in and of themselves, good for growth. But what is new in our findings is that the sound-policies, high-aid group grew at 3.5 percent per capita. If we look at the developing countries with poor policies, though, we find virtually no per capita growth for either those receiving small amounts of aid or those receiving large amounts. It is the fact that some countries have received large amounts of aid for decades and yet have shown no growth that has given aid a bad reputation. What has often been missed by observers, however, is that there are aid recipients with sound policies and that this group of countries has fared very well. Examples of countries in our sample that have received large amounts of aid and had good economic policies in the early 1990s are Bolivia, El Salvador, Ghana, Honduras, and Mali.”

Craig Burnside and David Dollar, “Aid Spurs Growth in a Sound Policy Environment,” World Bank, June 1997. **paper available**

Sachs and Warner include in their measure of good trade policy average tariff rates less than 20 %. They also include variables that measure exchange rate distortions for ten year periods. Their variable offers a basis for ‘good’ (or ‘difficult’) partners based on trade policy openness.

Jeffrey Sachs and Andrew Warner, “Economic Reform and the Process of Global Integration,” 1-118. *Brookings Papers on Economic Activity*, 1995.

The Dakar Forum proposed six goals for education in developing countries. These goals can also be seen as six criteria for educational investment return. The six categories are as follows: levels of primary children with access to complete free schooling with acceptable quality, levels of gender disparity, levels of adult literacy, levels of early childhood care and education, levels of learning opportunities for youth and adults, and all aspects of education

quality. They list countries that satisfy and fail to meet satisfactory levels. “Satisfactory levels” are determined on a country-by-country basis.

Education for All Global Monitoring Report: Is the World on Track?
UNESCO, November 13, 2002,
press release available

3. Conclusions

- a. No appropriate definition for long term good performers exists.
- b. An alternative definition is possible that focuses solely on the quality of a country’s institutions.
- c. See the extended discussion in Sections E and F below.

D. Non-MCA Poor Performers Countries

1. Definition from the Literature

Poor performers suffer from closed trade policies, corrupt political regimes, negative or below average growth rates, declining life expectancy, an ineffective bureaucracy, and poor public goods provision.

2. Perspectives from the Literature

Sachs and Warner identify poor or difficult trading partners as those countries who have average tariff rates in excess of 20% and non-tariff barriers above 40%. Their classification suggests a way to define difficult partners based on trade policy.

Jeffrey Sachs and Andrew Warner, “Economic Reform and the Process of Global Integration,” 1-118. *Brookings Papers on Economic Activity*, 1995.

“Among developing countries, 2.0 percent per capita growth is a good performance.” According to the authors, poor performers are those countries that have growth rates less than 2.0 percent.

Craig Burnside and David Dollar, “Aid Spurs Growth in a Sound Policy Environment”, World Bank, June 1997.
*paper available**

3. Conclusions

- a. No appropriate definition for poor performers exists.
- b. An alternative definition is possible that focuses solely on the quality of a country’s institutions.
- c. See the extended discussion in Sections E and F below.

E. Discussion Of Definitions And Perspectives From Literature

1. Defining Near Misses, Long-Term Good Performers, and Poor Performers

Generally accepted rigorous definitions for the terms near miss countries, long-term good performers, and poor performers do not exist. Most discussions of long-term good

performers focus on rates of economic growth for income per capita. For example, a good performing country has a growth rate of 2 % or more. Another qualification may be that a country has average tariff rates below 20%. But the important point is that NO universal definition exists.

2. Understanding the Causality

The literature review does not place much, if any, emphasis on why some countries outperform others. Rather it focuses on the *outcomes* of the development process. For example, many academics and policy-makers agree that higher levels of income are preferred to lower levels of income. A better educated populace is preferred to a very uneducated populace. But which factors cause the other? Does a better educated population lead to higher levels of income or do high income levels cause more education? These issues plague discussion of why some nations are wealthy and others are not.

The role of institutions, in particular governance institutions, that secure property from private and public predation form the basis of any explanation of economic development. Numerous studies have found that ‘the institutions of private property’ lead to economic growth and development (Hall and Jones 1999, Acemoglu, Johnson, and Robinson 2001). These institutions influence people’s decision to invest in certain types of careers and engage in various types of risky behaviors. Underlying any discussion of long-term good performers must be a discussion of the governance structure of society. This forms the central aspect of the programming of USAID’s new strategy.

3. Quantification

Good data, especially for developing countries, does not exist for many indicators of a country’s ‘goodness.’ For example, nearly one-third of the countries that are eligible for the MCA do not have data for each of the 16 indicators. Other problems relate to the data themselves. First, many MCA indicators are highly collinear. For example, political and civil rights in the ‘ruling justly’ category have a pairwise correlation of .87. Second, corruption appears in two indicators. Not only does corruption have its own indicator but it part of the Heritage Foundation’s measure of trade policy. Third, the data does not appear to be based on any causal relations.

F. Synthesis Of Alternative Definitions

In order to alleviate the problems discussed above, we measure the ‘goodness’ of a country’s performance on a simpler indicator than the MCA’s proposal. Our definition emphasizes the role of good governance with a theoretical basis rather than just correlations. Finally, data is available for our definition.

Below are the suggested definitions, followed by their methodological foundations.

Suggested Definitions:

- a) ***MCA Near Miss Countries*** have above average governance institutions that secure property from private and public predation, have relatively non-corrupt political regimes, and an effective government that responds to the needs of the citizenry.

- b) ***Long Term Good performers*** have below average governance institutions (with respect to the MCA countries) but they do not have excessively poor governance structures. For example, corruption may be extensive but it does not paralyze the system.
- c) ***Poor performers*** have very poor governance institutions. They have corrupt political regimes, non-responsive governments, and poor protection of property rights.

1. Methodology for Suggested Definitions

In order to make these definitions quantifiable, we construct an indicator based on the following:

- a) We reduce the number of indicators so that we focus on MCA governance indicators ('ruling justly'). Within the governance indicators, we drop political and civil rights because of their high correlation with the other indicators. This leaves us rule of law, corruption, government effectiveness, and voice and accountability. This reflects our belief that governance causes growth and improved performance of various outcomes.
- b) We standardize each variable so that the mean is 0 and the standard deviations equal 1. In order to overcome the problems associated with missing data, we assign values equal to one-standard deviation below the mean for missing observations in each category.
- c) We sum the governance indicators according to the assigned weights for each category. We then sort the countries by the new variable and propose the following definitions: MCA NEAR MISS score above the mean and have a upper bound of two standard deviations above the mean; LONG-TERM GOOD PERFORMERS score above two standard deviations below the mean to the mean; and POOR PERFORMERS score two standard deviations or more below the mean of our proposed indicator.

The proposed definitions categorize the countries as shown in Table 1.

2. Linkage Between Category Definitions and Policy and Program Prescriptions:

The indicator proposed does offer some insights into the nature of policy prescriptions that promote good performance eventually leading to MCA status. For example, consider the case of Indonesia. It fell below the MCA near miss category by -0.26. Indonesia scored below average in the rule of law category and the corruption categories. In order to improve Indonesia's ranking, policies that strengthen the legal system and reduce the size of the bureaucracy may improve Indonesia to near miss status.

High Performers (1)		Near Miss Countries (2)		Good Partners (3)		Difficult Partners (4)	
USAID	IRIS	USAID	IRIS	USAID	IRIS	USAID	IRIS
Albania Benin Bolivia Gambia Ghana Honduras Lesotho Malawi Mongolia Mozambique Senegal Sri Lanka	Benin Bolivia Cambodia Gambia Ghana Guinea Guyana India Malawi Mongolia Mozambique Senegal Sri Lanka Tanzania	Armenia Bangladesh Burkina Faso Cambodia Georgia Guyana India Indonesia Mali Moldova Nepal Nicaragua Papua New Guinea Tanzania Uganda Vietnam Zambia	Albania Armenia Bangladesh Bosnia Burkina Faso Ethiopia Georgia Honduras Kyrgyz Republic Lao PDR Lesotho Madagascar Mali Moldova Nepal Nicaragua Papua New Guinea Sao Tome Uganda Vietnam Zambia	Azerbaijan Bhutan Bosnia Cote d'Ivoire Djibouti Guinea Kyrgyz Republic Madagascar Mauritania Niger Pakistan Sao Tome Sierra Leone Togo Uzbekistan Yemen, Rep. Yugoslavia	Azerbaijan Cameroon Cote d'Ivoire Djibouti Eritrea Guinea-Bissau Indonesia Liberia Mauritania Niger Nigeria Pakistan Rwanda Sierra Leone Solomon Islands Togo Uzbekistan Yemen, Rep. Yugoslavia	Afghanistan Angola Burundi Cameroon Central African Rep. Chad Comoros Congo, Dem. Rep. Congo, Rep. East Timor Eritrea Ethiopia Guinea-Bissau Haiti Kiribati Lao Liberia Myanmar Rwanda Solomon Islands Somalia Sudan Tajikistan Vanuatu Zimbabwe	Afghanistan Angola Bhutan Burundi Central African Republic Chad Comoros Congo, Dem. Rep. Congo, Rep. Haiti Kenya Kiribati Myanmar Somalia Sudan Tajikistan Timor Leste Vanuatu Zimbabwe
In USAID category but not in IRIS (IRIS Ranking in Parentheses)							
Albania (2) Honduras (2) Lesotho (2)		Cambodia (1) Guyana (1) India (1) Indonesia (3) Nigeria (3) Tanzania (1)		Bhutan (4) Bosnia (2) Guinea (1) Kyrgyz Republic (2) Madagascar (2) Sao Tome (2)		Cameroon (3) Eritrea (3) Ethiopia (2) Guinea-Bissau (3) Rwanda (3) Solomon Islands (3)	

II. DEFINITIONS FOR FRAGILE, FAILING, AND FAILED COUNTRIES

A. Fragile Countries

1. Definition from the literature:

No single definition exists for fragile countries. However, nearly all definitions focus on the failure of the state to provide public goods such as health care and education and to resolve conflicts non-violently.

2. Perspectives from the Literature:

The state is weak when “the state lacks a monopoly over the use of violence.” This definition follows the classic definition put forth by Max Weber. Although this definition is simple, empirically it lacks concise meaning. One needs to be able to define monopoly power in a more empirically oriented way.

Eliana Ferrara and Robert Bates. “Political Competition in Weak States,” *Economic and Politics*, July 2001, 13(2), pp. 159-184.

****paper available****

A fragile state is one with high levels of political instability and bureaucratic incompetence. The International Country Risk Guide (ICRG) provides a measure of bureaucratic competence and the World Bank Indicators include a variable that measures political instability.

Valerie Bockstette, Areendam Chanda, and Louis Putterman. “States and Markets: The Advantage of an Early Start,” *Journal of Economic Growth*, December 2002, 7(4), pp. 347-369.

****paper available****

Fragile states lack an efficient bureaucracy. “Many- probably most- development theorists agree that a country needs a competent bureaucracy, often referred to as a strong state, in order to promote economic development.” Strong states can effectively provide services such as health care. In general, bureaucracies affect the allocation of public goods. The ICRG has a variable that measures bureaucratic efficiency.

Gabriella Montinola. “Politicians, parties, and the Persistence of Weak States,” *Development and Change*, 1999, 30, pp. 739-774.

****paper available****

Fragile states refer to those states where the “institutional arrangements are vulnerable to crisis and breakdown.” Crises include increases in crime and violence that lead governance organizations to lose their legitimacy. The political and legal institutions cannot adapt to change in a non-violent manner. Measuring this type of definition is difficult. Changes in violent crime may be a proxy but the data is very poorly measured.

“Concepts and Research agenda,” *Crisis States Programme Working Papers no. 1. LSE*.

****paper available****

This paper offers a discussion of the role of nationalism, liberalism, and elitism and their relationship with weak states. However, it does not offer a clear definition of fragile states.

Georg Sorensen, "Democraticization in the Third World: The Role of Western Politics and Research," 1998 Failed States Conference at Purdue.

** paper available**

The UNDP has a website with two articles that discuss fragile states, but neither article attempts to define the characteristics of a fragile state.

<http://www.undp.org/capacity/html/insights/>

The Asian Development Bank, the African Development Bank, and the Inter-American Development Bank have very little to offer with regard to definitions concerning fragile, failing, and failed states. For example, the following website has little discussion of what these terms mean.

<http://www.afdb.org/projects/polices/pdf/governance.pdf>

3. Conclusions

- a. No appropriate definition for fragile states exists.
- b. An alternative definition is possible that focuses on a country's conflict management institutions in a polarized society.
- c. See the extended discussion in sections D and E below.

B. Failing Countries

1. Definition from the Literature

No single definition exists but they all focus on the ability of the state to provide services and public goods.

2. Perspectives from the Literature

A failing state has a large underground economy because the institutional framework does not allow for contract enforcement. Growing unofficial economy signals that the state does not provide services that people will pay for through taxes. The World Bank has numbers on the size of the underground economy.

Simon Johnson, Daniel Kaufmann, and John McMillan. "Why do Firms Hide? Bribes and Unofficial Activity After Communism," Journal of Public Economics, June 2000,

paper available

"When faced with onerous bureaucracy, high levels of corruption, and a weak legal system, businesses hide their activities 'underground.' Consequently, tax revenues fall, and the quality of public administration declines accordingly, further reducing a firm's incentives to remain 'official.'" Failing states exhibit three characteristics- poor bureaucracies, weak legal systems, and high levels of corruption. Each variable has data available from the World Bank and the ICRG.

Eric Friedman, Simon Johnson, Daniel Kaufmann, and Pablo Zoido-Lobaton. "Dodging the Grabbing Hand: the Determinants of Unofficial Activity in 69 Countries," *Journal of Public Economics*, June 2000, pp. 459-493.
paper available

Failing states include those states that "when social divisions run deep and the institutions of conflict management are weak, the economic costs of exogenous shocks ... are magnified by the distributional conflicts that are triggered." Weak political institutions cannot credibly commit to policy reforms, in particular, those that provide some sort of compensation for the losers. Rodrik attempts to measure these variables with some of the institutional variables provided by the ICRG and measures of social polarization including income inequality. Unfortunately, these variables do not change very often and may not provide a clear signal when states are failing.

Dani Rodrik, "Where did all the Growth Go? External Shocks, Social Conflict, and Growth Collapses," *Journal of Economic Growth*, December 1999, 4(4), pp. 385-412.
paper available

States that fail lose control of economic issues. This paper highlights the role of globalization as a source of state failure.

Michael Nicholson, "Globalization, Weak States, and Failed States," 1999 Failed State Conference at Purdue University
paper available

The author does not offer a definition of failing countries.

Lothar Brock, "Grasping the Undemocratic Peace," 1998 Failed States Conference at Purdue University.

"This paper argues that weak states are the result of the way the international system has been created. The failure of states is a potential threat to the normative underpinning of the current international system."

Hans-Henrik Holm, "The responsibility that Will not go away: Weak States in the International System."

"Failed states are countries in which the central government does not exert effective control over, nor is it able to deliver vital services to, significant parts of its own territory due to conflict, ineffective governance, or state collapse." States fail when they cannot provide public goods. Many measures of public good provision are available through WHO, the World Bank, and United Nations.

Susan Rice, "The New National Security Strategy: Focus on Failed States" Brookings Policy Brief, February 2003.
<http://www.brookings.org/comm/policybriefs/pb116.htm>

3. Conclusions

- a. An appropriate definition for failing states does not exist.
- b. An alternative definition is possible that focuses solely on the quality of conflict management institutions in the presence of social polarization.
- c. See the extended discussion in sections D and E below.

C. Failed Countries

1. Definition from the literature

No single definition exists, but they all focus on the some type of major conflict that cannot be solved peacefully.

2. Perspectives from the literature

States fail when “the system is incapable of adapting and dealing with challenges and begins to disintegrate.” Conflicts between groups no longer can be resolved within the existing regime. Violence becomes an option and civil wars and political assassinations replace political discourse. Measuring civil wars and political assassinations is easy.

“Concepts and Research agenda,” Crisis States Programme Working Papers no. 1. LSE.
paper available

“Failed states are tense, deeply conflicted, dangerous, and bitterly contested by warring factions.”

Robert Rotberg, “The New Nature of Nation-State Failure,” The Washington Quarterly, Summer 2002.

This paper focuses on the role of post-Cold War state failure associated with ethnic fragmentation.

Hans-Henrik Holm, “The Disaggregated World Order: Foreign Policy towards Failed States,” 1999 Failed State Conference at Purdue University.
paper available

Dorff surveys the range of state failure definitions and reminds the reader to recognize that all state failures are not necessarily tragedies.

Robert H. Dorff, “Responding to the Failed State: What to Do and What to Expect,” 1999 Failed States Conference.
paper available

This paper defines state failure broadly to include revolutionary and ethnic wars, genocide, and disruptive political transitions.

Dan Esty, Jack Goldstone, Ted Gurr, Barbara Harff, Pamela Surko, Alan Unger, and Robert Chen. “The State Failure Project: Early Warning Research for US Foreign Policy Planning.
paper available

“A definition that focuses state failure as a demise in state operations might be useful as it analytically separates state performance from the experience of conflict.”

Peter Wallenstein, “State Failure, Ethnocracy, and Democracy,”
paper available

This paper focuses on the ethnic heterogeneity dimension of state failure.

Chadwick Alger, “Failed States and the Failure of State: Self-Determination, States, Nations, and Global Governance.”
paper available

3. Conclusions

- a. An appropriate definition for failed state does exist.
- b. An alternative definition is possible that focuses on the quality of a country’s conflict management institutions and the likelihood of violent political conflict.
- c. See the extended discussion in Sections D and E below.

D. Recovering States

1. Definition from Literature

No single definition of recovering states exists. However, the current literature on recovering states highlights the increasing ability of the state to provide public goods and minimize ethnic conflict.

2. Perspectives from the Literature

See papers in failing and failed states sections.

3. Conclusions

- a. An appropriate definition for recovering states does exist.
- b. An alternative definition is possible that focuses on the quality of a country’s conflict management institutions and the likelihood of violent political conflict.

E. Discussion Of The Definitions And Perspectives From The Literature

1. Towards a Definition of Failed, Failing and Fragile States

Failed, failing, and fragile states have ongoing civil wars, famines, and other forms of conflict. Furthermore, failed and fragile states are associated with inadequate public goods provision and an ineffective public bureaucracy. Yet, these definitions highlight the *outcomes* of state failure--they do not address the fundamental sources of such failure.

No seminal, universal definitions are available to categorize failed, failing and fragile states. Rather, numerous discussions exist that describe a failed state as recognizable when it is seen. As a result, such categorizations should be managed with care.

2. Understanding the Causal Relationships :

States fail for multiple reasons. Monocausal explanations of the collapse of a state do not illuminate the sources of these events, especially for policy-makers. For example, one factor alone did not cause the collapse of the socialist states in central and Eastern Europe. It resulted from a series of events that took place over decades. Similarly, the collapse of Yugoslavia did not simply result from Tito's death but rather a series of complementary events.

"What do states fail to do?" The most basic function of states is the protection of its citizens from violence both within and outside the country. Thus, the source of state failure lies in the inability of the state to protect its citizens from both private and public predation.

3. Measurement

Thorny issues plague attempts to measure failing states. Many definitions simply do not have easily quantifiable data. This leads to a great deal of theoretical discussion without much empirical analysis. Furthermore, data for long time periods, especially for countries that have low levels of income or small populations, does not exist. For example, the proposed MCA criteria are available for only 35 of the 115 candidate countries.

F. Synthesis Of Alternative Definitions

The following are suggested definitions. Their methodological foundations are explained afterward.

1. Suggested Definitions for Failed, Failing, and Fragile States:

State failure continues to occur and will remain a problem to be confronted. Understanding what factors precede state failure enhances policy-makers' ability to help turn a failing state into a successful one without enduring a period of state failure.

Weak legal and political institutions contribute to state failure. In particular, the state no longer provides the most basic of public goods-- law and order. In many cases, lapses in public security or great increases in public or private predation occur in the presence of very diverse or polarized societies. For example, Collier and Hoeffler (1998) found that ethnic diversity is a robust predictor of civil war. Rodrik (1999) found that state failure occurred in the presence of weak institutions and societal heterogeneity. Based on these findings, we propose the following definitions:

- a) ***Fragile States***-- Fragile states do not have political systems that resolve conflicts between various factions. Institutions have lost much of their legitimacy and citizens no longer believe that the state can effectively maintain law and order. Public goods provision is inadequate. A negative shock, such as a political assassination, may lead to complete state failure.
- b) ***Failing States***-- Failing states lack an effective legal system to resolve disputes and a political system that responds to the electorate. Failing states also have a bureaucracy whose public goods provisions is inadequate and inefficient.

- c) ***Failed States***-- Failed states have lost the strength and ability to maintain law and order within their borders and so violent conflict permeates society. These countries also have very poor legal and political institutions and in many cases, ethnically diverse populations.
- d) ***Recovering States***- Recovering states have an increasing capacity to provide public goods and maintain law and order. Political violence occurs less often and more people resort to conflict resolution through the legal system.

2. Methodology for Suggested Definitions

These suggested definitions capture other possible manifestations of state failure. Empirically, we propose measuring a failing state as the average value of the World Bank Governance indicators (rule of law, government effectiveness, and voice and accountability) plus the extent of societal heterogeneity measured as ethnic fractionalization. Potential failing states have weak political and legal institutions in the presence of an ethnically diverse population. We first average the scores of the World Bank Indicators for rule of law, voice and accountability, and government effectiveness. Next we standardize the average World Bank Indicators along with the extent of ethnic fractionalization.

Based on the calculated values, we identify countries as Failing, Fragile, and Failed as follows. First, we examine the extent of ethnic heterogeneity. If the country has a score below the average value for the sample, then they may be classified as a fragile, failing, or failed state. Next, we array the institutional quality index. Failing states score between the mean and .5 standard deviation below the mean value. Fragile states fall between .5 and 1.5 standard deviations below the mean. Failed states have values more than 1.5 standard deviations from the mean.

Based on the above definitions, the following classification emerged.

Fragile States	Failing States	Failed States
Bosnia and Herzegovina Djibouti Eritrea Ethiopia Guinea-Bissau Indonesia Kenya Kyrgyz Republic Pakistan Togo Uganda Yugoslavia, Fed. Rep.	Cameroon Central African Republic Chad Congo, Rep. Cote d'Ivoire Guinea Nigeria Sierra Leone	Afghanistan Angola Congo, Dem. Rep. Sudan

3. Linkage between Category Definitions and Policy and Program Prescriptions

The causes of state failure lie in the institutional structure of society. Individuals no longer find the legal system an effective source of conflict resolution. The political system does not respond to the preferences of the citizens.

Institutional reforms would reduce the likelihood of state failure. Additional resources would be applied to the legal system so that local interests do not capture it. More transparency in the bureaucracy so that corrupt officials do not remain in their position or operate corruptly would be created. Simplification of the legal system would match local laws and conditions.

Political decentralization, particularly federalism, may also reduce the likelihood of social conflict. For example, Belgium and Switzerland have very diverse societies but have been able to avoid civil war in part through their federalist structures. A better appreciation of the mechanism in these two countries may provide insights into policy design.

III. CONFLICT RELATED COUNTRIES

A. Conflict States

1. Definition From The Literature

Conflict states are those states where there are civil wars, political assassinations, revolutions, and coups. In general, conflict states are defined as those that are politically unstable.

2. Perspectives From The Literature

Conflict: "A social factual situation in which at least two parties (individuals, groups, states) are involved, and who: i) strive for goals which are incompatible to begin with or strive for the same goal, which, can only be reached by one party; and/or ii) want to employ incompatible means to achieve a certain goal."

www.fewer.org (Forum on Early Warning and Early Response)

"Conflict is present when two or more parties perceive that their interests are incompatible, express hostile attitudes, or... pursue their interests through actions that damage the other parties. These parties may be individuals, small or large groups, and countries." Interests can differ over: i) access to and distribution of *resources* (e.g. territory, money, energy sources, food); ii) control of *power* and participation in political decision-making; iii) *identity*, (cultural, social and political communities); iv) *status*, particularly those embodied in systems of government, religion, or ideology.

<http://www.fewer.org>

Conflicts consist of civil wars, political assassinations, coups, and revolutions. Each measure is available and is a clear indicator of conflict. If people engage in violence against one another, then it is clear that there is conflict.

William Easterly, "Can Institutions Solve Ethnic Conflict?" Economic Development and Cultural Change, July 2001, pp. 687-706.

paper available

3. Suggested Definition Of Conflict Countries

Conflict states do not suffer from the same problems as states in the other categories. Conflict states are either currently experiencing or, in the recent past, have experienced conflict between warring political factions.

We define conflict states as those countries that have an ongoing civil war. This definition is simple and the data readily available.

B. Humanitarian Countries

1. Definition from the Literature

The literature defines humanitarian countries as those countries where people have been displaced or infrastructure has collapsed or there is an ongoing war or famine or other important catastrophe.

2. Perspectives from the Literature

“This paper examines the human cost of this latest period of fighting, focusing on the scale and nature of displacement, the collapse of infrastructure and services, and the very costly international *humanitarian* operation”

David Simon, “Bitter Harvest of War,” Review of African Political Economy, December 2001, pp. 501-520.

“This study identifies the sources of *humanitarian* emergencies characterized by warfare, displacement, hunger, and disease. The authors emphasize that economic variables often become salient through relative deprivation. Their econometric analysis indicates that stagnation and decline in real GDP, a high ratio of military expenditures to national income, a tradition of violent conflict, high income inequality, and slow growth in average food production are sources of emergencies. Also, inflation and low levels of IMF funding are associated with emergencies, although the direction of causation maybe opposite.”

Juha Auvinen and Nafziger Wayne, “The Sources of Humanitarian Emergencies,” Journal of Conflict Resolution, June 1999, pp. 267-290.

3. Discussion

The literature nicely defines what humanitarian countries are and there is little need to modify these definitions.

IV. TYPES OF DEVELOPMENT

A. Transformational Development

1. Definition from the Literature

Transformational development represents a shift from household production to market exchange, resulting from changes in government credibility and the attitudes of individuals.

2. Perspectives from the Literature

“Economic achievement depends primarily on people’s abilities and attitudes and also on their social and political institutions... it is, of course, true that these determinants interact not only among themselves but are also influenced by material progress...”

P.T. Bauer, *Dissent on Development*, Cambridge, Mass: Harvard University Press, 1972.

“Development can be seen ... as a progress of expanding the real freedoms of people.... Growth of GNP or of individual incomes can, of course, be very important as means to expanding the freedoms enjoyed by the members of the society. But freedoms depend on other determinants, such as social and economic arrangements (for example, facilities for education and health care) as well as political and civil rights (for example, the liberty to participate in public discussion and scrutiny).”

Amartya Sen, *Development as Freedom*, New York: Alfred Knopf, 1999.

Note- We have supplemented Sen’s book with “Mortality as an Indicator of Economic Success or Failure,” *Economic Journal*, January 1998.

“The industrial Revolution gradually changed the traditional organic agrarian economies ... into mineral-based industrial economies.”

Deepak Lal, *Unintended Consequences*, Cambridge: Mass: MIT Press, 1998.

“All the postsocialist countries are in deep **recession**. This study discusses the common features of these **recessions**, using the Hungarian economy as an example. The author starts by considering the following general reasons for the phenomenon: (1) the shift from a sellers' to a buyers' market, (2) the transformation of the real structure of the economy, (3) the disturbances in the coordination mechanisms, (4) the macro consequences of the hardening of financial discipline, and (5) the backwardness of the financial system. The components of macrodemand-investment, personal consumption, government consumption, and exports are then examined one by one. The most important factor here is the swindling propensity to investment. Finally comes a summary of the conclusions to be drawn from the analysis. There are good reasons for placing the tasks of emerging from the **recession**, recovery, at the top of the list of economic "policy priorities, but without permitting an acceleration of inflation or a resumed increase in indebtedness. The study ends by analyzing the political and economic"-psychological requirements for recovery.”

Janos Kornai, *Transformational Recession*, *Journal of Comparative Economics*, 1994

** paper available**

This paper highlights the role of ideological shifts and institutional change as the source of transformational development.

Doug North, "Structure and Performance: The Task of Economic History," Journal of Economic Literature, September 1978.

** paper available**

3. Discussion of Definitions and Perspectives

The literature provides a quite limited definition of transformational development. It suggests that transformational development occurs as economies evolve from primarily agrarian societies to those based on markets--that is, individuals move from subsistence to exchange. The changes also involve changes in the attitudes of individuals. Missing from the discussion is a deeper appreciation of the causes of transformational development and its temporal dimension, rather discussion tends to focus on the *outcomes* of transformational development. The literature also fails to emphasize the lack of political will and commitment to successful reforms.

4. Suggested Definition

Transformational development represents a confluence of social and political events that lead to large and rapid improvements in aggregate economic output and individual freedom. These improvements include changes in the credibility of government policies and a shift from a predatory state to a market-augmenting government.

5. Linkages between Definition and Policy and Program Prescriptions

Transformational development occurs as a result of a series of complementary events that reinforce a shift from household to market production, from less to more political, social, and individual freedom. The fundamental cause of this "development" is a wide-spread, sharp, and rapid political change that inadvertently otherwise wipes away critical impediments imposed by poor governance.

B. Incremental Development

1. Definition from Literature

Incremental development represents improvements in outcomes at the micro-level. For example, modernizing the agricultural sector over time is an aspect of incremental development.

2. Perspectives from the Literature

"This paper reviews and discusses the pace and direction of the transformation of formerly socialist economies into market economies. It points out the lack of credibility of slow

reforms as well as the dangers of a radical big-bang approach. The article recommends a gradual transition, starting with a rapid entry of private industry into commerce and light industry, followed by the gradual privatization of the more capital intensive industries, while keeping the government in charge of restructuring legal and financial institutions and in the management of declining industries.”

Kenneth Arrow, “Economic Transition: Speed and Scope,” *Journal of Institutional and Theoretical Economics*, March 2000.

This paper argues that big bang transformation do not lead to transformational development. North argues that piece-meal reform offers a better means to economic development.

Douglass North, “Big Bang Transformations of Economic Systems,” *Journal of Institutional and Theoretical Economics*, March 2000.

This paper highlights the role of the political system in incremental development. Successful development occurs when a piece-meal reform promotes (or protects) specific sectors of the economy.

M. Dewatripont and Gerard Roland, “The Virtue of Gradualism and Legitimacy in the Transition to the Market Economy,” *Economic Journal*, 1992.

** paper available**

3. Discussion of Perspectives and Definition

The literature focuses on incremental development as a piece-meal process where one sector modernizes while others do not. Precise definitions do not appear often. Rather, terms such as ‘gradualism’ are used but not adequately discussed. In particular, explicit discussion of the lack of political commitment and will to engage in large-scale reforms rarely appears in the literature. Understanding the synergistic aspects of development does not enter into this approach. This approach also highlights the role of politics, in particular, the likelihood of successful reforms. Very little discussion focuses on aggregate outcomes directly.

4. Proposed Definition

Incremental development occurs when one sector or group of people manages improvement in some measurable outcome (such as immunization rates) in the face of political constraints that prevent transformational development. Incremental development does not emphasize improvements in rates of economic growth.

V. DEFINITIONS FOR INTERNATIONAL AND FOREIGN POLICY RELATED COUNTRIES

A. Transnational/ Global Countries

1. Definition From The Literature

The literature suggests that transnational issues involve a negative externality across borders. For example, HIV/AIDS epidemic in Africa has the potential to adversely affect many nations. These types of problems include environmental problems as well.

2. Perspectives From The Literature

“We need to understand how such factors as demographics, natural resources, the environment, economic growth, globalization, and the quality of governance will challenge governments and the international community and, in some sense, sows the seeds of conflict threatening to US interests.”

“Defining US National Security Interests for the Next Generation”
<http://www.usaid.gov/pubs/confprev/jan2001/gannon.pdf>

“*Transnational* entrepreneurs--US-educated immigrant engineers whose activities span national borders--are creating new economic opportunities for formerly peripheral economies around the world. As talented immigrants who have studied and worked in the USA return to their home countries to take advantage of promising new economic opportunities they are building technical communities that link regions in the developing world to the leading centers of information and communications technologies in the USA. This paper examines the cases of Taiwan, India and China to suggest that these *transnational* entrepreneurs and their communities provide a significant mechanism for the international diffusion of knowledge and the creation and upgrading of local capabilities--one that is distinct from, but complementary to, global production networks.”

Anna Lee Saxian, “Transnational Communities and the Evolution of Global Production Networks,” *Industry and Innovation*, December 2002.

“The transmission of “participatory development” by *transnational* non-governmental development organizations (NGDOs) to local “partners” in developing countries is today widely criticized, often because of an apparent failure to attain the essentially political goal of “empowerment”. This article argues that this problem relates closely to a failure amongst NGDOs to engage with the political context in which “citizenship participation” is contested in developing countries. Case study material reveals how one participatory development intervention has converged with a particular moment in the trajectory of citizenship formation amongst the target group, and with the local politics of citizenship in Cameroon more broadly, in ways that have, at best, ambiguous implications for the “empowerment” of the local participants. The paper concludes by discussing how “rights-based” approaches might overcome these problems, and the challenge that this poses for the *transnational* development community.”

Sam Hickey, “Transnational NGDO’s and Participatory Forms of Rights -Based Development,” *Journal of International Development*, August 2002, pp. 841-857.

3. Suggested Definition Of Transnational/Global Issues

Improvements to this definition would be marginal. One point of caution should be mentioned. The number of issues defined as transnational should not become so large that the term becomes meaningless.

B. Foreign Policy Priority Countries

1. Definition from Literature

The literature suggests that foreign policy countries are those determined by the President or the State Department. These countries become foreign policy countries based on the strategic national interest of the government.

2. Perspectives from the Literature

“We need to understand how such factors as demographics, natural resources, the environment, economic growth, globalization, and the quality of governance will challenge governments and the international community and, in some sense, sows the seeds of conflict threatening to US interests.”

“Defining US National Security Interests for the Next Generation”

<http://www.usaid.gov/pubs/confprev/jan2001/gannon.pdf>

paper available

“The international relations literature largely presumes that leaders engage in *foreign policy* substitution but does not provide a compelling theoretical explanation or convincing empirical evidence that substitution occurs. This article offers a theory of *foreign policy* choice based on the differences between private and public goods. It assumes that private goods and public goods are useful under different circumstances and conditions. Leaders select a *policy* based on political needs, so private- and public-goods approaches are employed alternatively depending on domestic situations: *policies* are substituted one for another. The trade-off between aggressive unilateral economic behavior and military conflict as the United States conducted *foreign policy* during the cold war is examined. Results show that leaders facing economic concerns and/or domestic opposition prefer trade aggression, a patently private-good-like *policy*, and substitute such *policies* in response to changing domestic stimuli.”

David Clark, “Trading Guns for Butter,” Journal of Conflict Resolution, October 2001, pp. 636-660.

“A comprehensive understanding of international environmental politics requires attention to *foreign policy*. In this essay we describe a wide range of theories and approaches to *foreign policy* and international relations, with emphasis on how they can help us to better understand *foreign policy* in the environmental issue area. We organize the theories into three categories: systemic theories, which emphasize the influence of the international system, including the distribution of power within it; societal theories, which focus our attention on domestic politics and culture; and state-centric theories, which find answers to questions about *foreign policy* within the structure of the state and the individuals who promulgate and implement *foreign policies* in the name of a given country. Within this presentation of various theories, we highlight the influence of power, interests and ideas.”

John Barkdull and Paul Harris, “Environmental Change and Foreign Policy,” Global Environmental Politics, May 2002, pp. 63-91.

3. Discussion

Definitions of foreign policy countries are not definitive. Many types of issues fall under the umbrella of national security—e.g., traditional military concerns, environmental issues, demographic change, trafficking in persons.

USAID should follow the traditional definition.

Appendix 1

MCA Countries

1. Kuaffman, Daniel and Aart Kraay. *Governance Indicators, Aid Allocation, and the Millennium Challenge Account*. The World Bank, December 2002.
2. Radelet, Steve. "Will the Millennium Challenge Account be Different?" *Washington Quarterly* (Spring 2003), 171-187. Also available from: http://www.twq.com/03spring/docs/03spring_radelet.pdf
3. Birdsall, Nancy, Ruth Levine, Sarah Lucas, and Sonal Shah. *On the Eligibility Criteria for the Millenium Challenge Account*. Center for Global Development Working Paper, September 12, 2002.

Non-MCA Near Miss Countries

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